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Budget and Tax Issues Update May 28, 2009

May 2009 Economic and Revenue Forecast

- 2007-09 general fund/lottery revenue down \$1.3 billion (8 percent) from close-of-session forecast
- 2007-09 state budget in the red by \$855 million in March and another \$351 million in May
- 2009-11 general fund/lottery revenue down \$2.4 billion (15 percent) from December 2008 projection

Ways and Means Co-Chairs' Proposed Budget

- Proposed 2009-11 general fund/lottery expenditures of \$14.7 billion (compared to 2007-09 adjusted spending of \$13.2 billion)
- Estimated 2009-11 general fund/lottery resources total \$13.9 billion
- \$800 million gap proposed to be filled by "new state revenues"

Proposed Revenue Package – Corporate/Business Taxes

- Corporate minimum: \$100 minimum on all c- and s-corps; for c-corps with gross receipts above \$500,000, a marginal tax rate of 0.15% is applied up to a cap of \$60,000; estimated 2009-11 revenue = \$135 million
- Corporate tax rate: apply new marginal rate of 8.2 percent (up from 6.6 percent) to net income above \$250,000; estimated 2009-11 revenue = \$122 million
- Secretary of State filing fees: in addition to current \$50 annual flat rate on all entities, \$25 for non-profits, \$50 for domestic corporations and \$100 for foreign corporations; estimated 2009-11 revenue = \$20 million
- Modifications to Business Energy Tax Credit (BETC) – estimated 2009-11 revenue = \$23 million
- Total estimated 2009-11 revenue = \$300 million

Proposed Revenue Package – Personal Income Taxes

- For incomes between \$125,000 and \$250,000 (\$250,000 and \$500,000 on joint returns), marginal tax rate is increased from 9 to 10.8 percent; for incomes above \$250,000 (\$500,000 on joint returns), marginal rate is increased from 9 to 11 percent; federal tax deduction phased-out for adjusted gross incomes between \$125,000 (\$250,000 on joint returns) and \$145,000 (\$290,000 on joint returns); estimated 2009-11 revenue = \$504 million

Proposed Revenue Package – Other Components

- Connect to IRS Code for one-year exclusion of first \$2,400 of unemployment benefits; estimated 2009-11 revenue = minus \$32 million
- Create a general tax amnesty program applicable to non-filers and amended returns; estimated 2009-11 revenue = \$16 million